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Výkonnost akcií vybraných společností v Číně

Stock Investment Performance of Selected Companies in China

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3. Overview of Stock Market in China
4. Evaluation of Stock Returns of Selected Companies in China
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Annexes

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The declaration

I hereby declare that I have elaborated the entire thesis including annexes myself.

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Contents

1 Introduction

As an integral part of financial market, the stock market plays an essential role in the development of economics. With the explosion of stock market, some people get benefits from it, in the meanwhile, most of people lose out and wake up from their fortune dream. It leads to more and more suspicion to the investment value of China stock market.

The main objective of this thesis is to introduce the situation of Chinese stock market and evaluate the stock returns of the some selected Chinese companies during 2006 to 2015. The two selected companies are China Petroleum and Chemical Corporation which is a monopoly company and Suning Holding Group which is a competitive company. The results of their stock return will be calculated by the data of their financial statements and historical stock price.

The thesis is divided into five chapters. The first chapter is the introduction which introduces the main goal of this thesis and research directions of this topic. In the second chapter, we focus on the main characteristics of equity securities in terms of the definition and classification, moreover, the thesis will introduce some stock indicators. In the third chapter, we introduce the overview of China's stock market including its background, development process, defects, and regulatory system. The fourth chapter is the main chapter which is focused on the evaluation of stock return of selected companies by using the stock price, market capitalization, payout ratio and price earnings ratio. The results of stock return will be calculated in different holding period and the stock price will be compared between companies in the same industry. The last chapter is the conclusion, a summary of knowledge and conclusions implied by this thesis.

According to the evaluation of companies' stock returns in China, we need to consider the worth of investment in stock market thoughtfully, and find a steady way to measure the investment feasibility. Compared with following the most people's investment choices, it is better to make the decision by calculation and evaluation. Which can lead to a better understanding of stock investment situation in China, and help the individual investors to have a more professional stock investment knowledges.

2 Characteristics of Equity Securities

Securities are financial contracts that can be classified in many ways by varying the basic elements. In this chapter, we focus on the equity securities which is commonly referred to as stock. We will focus on the characteristics of stock and the role of stock in the financial market.

2.1 The Definition of Equity Securities

What is the equity security? According to the opinion of Tiantao Shi (2012), equity is the right of shareholders to obtain economic benefits from the company, stockholders can participate in the management of the company based on the identity and status. Junhai Liu (2012) thinks that shareholder rights are referred to as equity, it has generalized and narrow definition. The generalized shareholder right refers to the various rights which the shareholder can claim to the company. In the narrow sense, the shareholder right only refers to the shareholder's right to obtain economic benefits and participate in corporate governance on the basis of shareholder's qualification. Yousu Zhou(2013) claims that equity is the right of a shareholder which reflects the obligations of shareholders and corporate property. It is generally believed that equity is the abbreviation of shareholder's right.

The holder of the securities can obtain the business decision-making power and control right, which is more than the general creditor's right. The stock is the certificate of the implementation of this right, and it is also the basis of obtaining the residual profit. The "right" given by the stock directly controls the enterprise and it can obtain the enterprise dividends. The shareholders of an enterprise are insiders, so the fate of shareholders is grasped in their hands (Bodie, 2012).

Stock can be divided into common stock and preferred stock. The common stock is the main proportion in stock exchange and it occupy the most part of transaction volume.

Common and preferred shares are shares issued by a company to shareholders. Common stock holders are corporate shareholders and have the right to vote. Preference holders may be given the priority right to be allocated agreed dividends before ordinary shareholders. Preferred shareholders do not have the right to vote, but they can receive a fixed dividend. If the company is wound up, the preferred shareholder may get the property distribution before the ordinary shareholder (after the creditors). Dividend priority shareholders may receive dividends in the case of a profit permit. As for the cumulative priority shareholders, if the year has no dividend payable, the holder will get the accumulated dividends of the company once when it is available. Even if the company gains the profits, it is not necessary to distribute dividends (Baidu Encyclopedia, 2017).

Common stock has following characteristics:

(1) The permanence of the term: The term of the permanent guarantee of the enterprise's sustainable operation. National laws strictly restrict companies from reducing capital and shareholders have no right to require the company to withdrawal, but shares can be transferred. For enterprises, there is no time limit for equity capital, there is no need to repay, so that enterprises will only increase capital shares.

(2) The residual of profit: Dividends are ranked in the final payment sequence of the enterprise, it means the surplus will be allocated to pay dividends only after paying the proceeds of other creditors before the shareholders. So paying dividends depends on two conditions: whether the enterprise has surplus profit and dividend policy.

(3) The unnecessity of dividends: The so-called unnecessity means dispensable. Equity is not necessarily repaid. The liquidation order stipulated in the Bankruptcy law that settlement fee, worker's salary, mortgage debt, unsecured debt, preferred stock, should be allocated before, and the surplus after paying the above expenses is possible to the stockholders.

(4) Limited liability: The liability of the company is essentially the liability of the shareholder, but the shareholder only pays the creditor by the amount of the

contribution. It means the debt of a company is not related to the property of a shareholder. On the contrary, unlimited liability requires that the part of the enterprise' debt which is unable to solve will be repaid by the shareholder's personal property, and there is also a joint relationship between the shareholders.

(5) High yield and high risks: The bond proceeds are fixed and therefore limited. Shareholder returns are not capped, and in general, equities are more profitable than bonds. In the meanwhile, the risks reflected in varies aspects. The compensation is the surplus of profits and the liquidation is unnecessity, therefore, its income is not predictable. Because it is high-risk, so it needs high income to compensate for the risk.

(6) Transferable: The transferability of shares is crucial for the "limited liability" which create the impersonal nature of responsibility (Merton, 2013).

2.2 The Classification of Stock

If a company only issues common stock, then each stock has one vote and is entitled to an equal share of the profit. But companies can also issue other types of stock with restricted voting rights or increased profit right. Some companies issue non-voting common stock (e.g. Google), many stock exchanges allow non-voting stock to be listed. (e.g. NYSE). A more usual way to restrict voting rights is issuing dual-class stock, one class with enhanced and one with reduced voting rights. This construction is designed to give companies access to the public market while the founders retain control of the company (Wijst,D, 2012).

There are many kinds of stock in the world, but we will focus on the stock types in China:

(1) Classification by the owner: State owned stock, corporate owned stock, personal owned stock and foreign-owned stock.

(2) Classification by feature: Registered stock and bearer stock. The "company law" stipulates that shares issued to promoters, state-authorized investment institutions

and legal persons shall be registered shares; shares issued to the public may be registered shares or bearer shares. The bearer shares can be transferable.

(3) Classification by whether the amount of stock is marked: face value stock and no- value stock.

(4) Classification by different currency: A-share and B-share.

(5) Classification by location:

- A-share: Domestic issues and purchases by Chinese residents.
- B-share: Overseas issues and purchases by foreign currency to domestic and overseas residents (since 2001) with the face value of RMB.
- H-Share: The company is registered in mainland China, but the enterprise is listed in Hong Kong;
- N-share: Chinese companies are listed on New York Stock Exchange.
- Blue chips: Blue-chip generally refers to the growth of good stocks. It comes from the culture of casino that the most valuable chips is blues, the second is red, the white is worse.
- Red chips: China, Hong Kong and international investment institutions call the stock of the listed companies which have the Chinese mainland background as red chips.
- ST (special treatment): Two consecutive fiscal year net profit is negative, the net assets per share is lower than the par value.
- PT: Particular Transfer (special transfer) has now been cancelled.

2.3 The Role of Stock Market

Stock plays a essential part in property, and it has varies usefulness which bring considerable benefits to stockholders.

This chapter will focus on the function of stock by the power of stock and function of stock market to help us make a better understand on stock significant.

2.3.1 The Importance of Stock

As a new kind of independent property, stock rights have the power of possession, use, profit and disposition of property.

The possession of equity is different from the possession of ordinary objects. The possession of equity is the possession of the legal relationship between the shareholders and the company. It shows in the capital contribution certificate or the shareholder register of the company to the shareholder. In the special case of the stock right obtained by inheritance, the heir may acquire possession of the equity when the successor dies. If the stock right is transferred according to the contract, the record inconsistency of the company's register and articles of association does not affect the ownership of the equity agent.

The power to use of the stock right means that the shareholder has various voting rights to the company, such as holding a temporary general meeting, all kinds of votes at the general meeting of the shareholders, and participating in the management company through its voting right. Similarly, the right to use of equity and common objects can be different. The use of equity need the help of the participation of certain media or others. As for the right to vote, it can be only used at the shareholders' meeting, the use of the right to vote need the media of General Assembly.

The power of income of stock right is dividend, Yixiang Lin (2010) claims that the benefit is the core of equity. The rights of the stock are nothing more than equity dividends. The shareholders invest their individual property as contribution to the company, in the meanwhile they gain the right of voting and earning of the company. The exercise of voting rights is for the company's profits on the surface, which can makes the development of company flourishing, but the fundamental aim is for stockholders to obtain dividends. Because only when the company gains a good profit, shareholders can achieve a good return on investment, shareholders will acquire more equity dividends.

The disposition power of the stockholder's right is the transfer, bequest, request dissolution of the company. When the company is struggling, or when the shareholder is oppressed or unfairly treated by the major shareholder of the company, shareholders ' return on investment will be reduced, they may exercise the power of decentralization at this time. They can transfer the shares of the company or request the dissolution of the company when necessary in order to protect their own benefits. The disposition power of the stock right is restricted in the limited liability company, the transfer of the shares will be limited. But in the stock company, the transfer of shares is relatively free.

Equity also has the power of request, the request can only be exercised to a specific subject. Such as when the company should have to distribute dividends to shareholders but is not, shareholders have the right to ask the company to allocate dividends. Or when a company's shareholder meeting or board makes a decision that violates the articles of incorporation or the mandatory provisions of the law, the shareholder may request the court to revoke the resolution or request the Court to determine that the resolution is invalid (Yixiang Lin, 2010).

2.3.2 The Function of Stock Market

In today's world, with the development of global economic integration, the process of economic finance is becoming more and more intensified. The stock market plays the leading and pivotal role in the market mechanism. According to the summary of experts, the stock market has following functions:

(1) Amassing function: The stock market directs many dispersed small funds to converge into the fund collection which can be put into social reproduction. In this way, the stock market plays the role of "cistern" of funds. Raising funds is the primary function of the stock market. By issuing shares in the stock market, the enterprise concentrates the idle funds dispersed in the society, and forming huge and long-term capital, which is used to support socialized mass production and large-scale operation.

The financing scale and speed that the stock market can reach are unbelievable than the enterprise's accumulation and bank loan.

Marx(1843) had a vivid commentary on this: *If we had to wait to accumulate some individual capital to be able to build a railroad, I am afraid that there was no railway in the world today, but it was achieved by the stock company.*

(2) Allocation function: The stock market transfers the inefficient use of resources from the Department to the efficient sector, so that the economic resources of a society can be most efficient allocation in the most effective use, and it can achieve the rational allocation of scarce resources. The stock market realizes the resource allocation through the financing of primary market and the stock transaction of secondary market. Investors according to the various information choose the stock of good growth and profit potential to invest, they abandon the stock with performance of landslides and poor earnings. Which makes the funds gradually flow to the company with good results and good prospects. It provides a good operating environment for the reputable company to gain capital expansion in the stock market. And those low rating companies with poor performance and bleak prospects is difficult to continue raising funds, so that they will be gradually declined and demised (Shuqin Ma, 2009).

For example, the stock market in the second half of the 19th century gave huge financial support to the new technology at the time, which pushing the railroad around the world quickly. In the 1990s, U.S. stock market had greatly supported the information technology industry, then a large number of technology companies joint into the stock market to raise funds, a group of outstanding enterprises grew rapidly, which prompting the rapid development of the U.S. Information technology industry.

(3) Spreading risk function. The stock market provides investors and financiers with the channel of investment and financing, and it also provides the way to disperse the risks.

From the point of view of funds requesters, they raise funds through the issue of stock, while the risk of operation partial transferred and dispersed to investors, it realizes the realization of the risk of socialization. From an investor's perspective, it is possible to transfer and diversify risk by buying and selling stocks, they can easily establish portfolios based on the level of individual risk-taking. When funds are superfluous, investors can buy shares for investment and transfer their consumption funds into productive capital. When fuds are scarce, stock can be sold into cash to meet the demand for immediate payment.

The high liquidity of the stock market lead to the safety of putting the remaining funds into the stock market, so that, idle funds transfer into production funds. It can not only helps the society to maximize the use of dispersed idle funds, but also promotes the preservation and appreciation of personal wealth (Tiantian wu,2017).

(4) Adjustment function: The stock market has the function to adjusting the macroeconomic. While the stock market is attached to savers and investors, the operating mechanism of the stock market works through the effects on savers and investors.

(5) Reflection function: Stock market situation is the "barometer" and "meteorological Observatory" of national economy, which is recognized as the signal of national economy system (Shuqin Ma, 2009).

2.4 Stock Market Indicators

Because of the volatility of stock prices, investors are bound to face market price risk. For a specific kind of stock price changes, investors can easy to understand, but for a variety of stock price changes, it is hard to understand each one. In order to adapt to this situation and needs, some financial services institutions use their business knowledges and their familiar with the advantages of the market, they make the establishment of stock price indices, and public release those indexed as a market price changes indicators.

This chapter will introduce the characteristics and the way of calculation of stock index, and list some stock indexes that most of them will be used in later chapter.

2.4.1 Stock Market Indices

Stock indicator is a reference indicator compiled by a stock exchange or financial services institution, which is used to indicating a change in the stock market. Investors can test the effects of their investments by stock indexes and use them to predict the stock market's movements. At the same time, the press, corporate bosses and even political leaders are also use it as reference indicators to observe and predict the social and economic development situation. Because the stock index is complex and diverse, people often choose several representative stocks from listed stocks and calculate the average or index of the sample stocks. It often used to indicate the overall trend and fluctuation of stock prices throughout the market (Fabozzi, 2014).

To calculate the stock indicator, there are three factors need to be considered: The first is sampling, which is the extraction of a small number of representative components in a large number of stocks. The second is weighted, it can be average weighted by unit or total value or not weighted. The third is the computational program, which calculates arithmetic mean, geometric mean, or both price and total value.

Because of the variety of listed stocks, it is difficult and complicated to calculate the average price or index of all listed stocks, so people often choose some representative stock from listed stocks and calculate the average price or index of the sample stocks. And they are used to indicate the overall trend and fluctuation of stock prices throughout the market.

When calculating the average or index of stock prices, we often consider the following four points:

a) The sample stock must be typical and common, for this reason, the selection of samples should be comprehensive considered of its industry distribution, market influence, stock grade, appropriate quantity and other factors.

b) The calculation method should be highly adaptable and can be adjusted or revised by the changing stock market, so that the stock index will have a better sensitivity.

c) It should have scientific basis and means of calculation. The basis of the calculation must be uniform, which is generally based on the closing price. But with the increase in the frequency of calculation, some will be calculated by the cost per hour or even shorter time.

d) The base period should be better balanced and representative (Fabozzi, 2014).

There are some common stock indicators:

The Dow Jones Industrial Average (DJIA) which is a index calculated by a sample of 30 large blue chip companies with using a price-weighted averaging method. The disadvantage is that the weight factor in the index is very random, the average index should be recalculated if the dividend paid for a stock is greater than 10% or if any of the 30 families are replaced by another company. The S & P index (S&P500) expands the sample to 500 companies and is a market-weighted index.

The National Association of Securities Dealers has issued an index of nearly 3000 over-the-counter stocks, which are traded through the National Association of Securities Dealers ' automated quoting system (NASDAQ). The largest US stock index is the 5000 (Wilshire 5000) index, which is the sum of all New York stock exchanges and the US stock exchange plus the market capitalization of OTC stocks. It includes about 7,000 stocks.

Other international stock indices: Japan's Nikkei Index (Nikkei), the UK Financial Times Index (FTSE), Germany's Frankfurt index (DAX), China's Hong Kong Hang Seng Index (Hang Seng), and the Canadian TSX Index (TSX).

2.4.2 Stock Market Ratios

Some stock market ratios will be introduced in this subchapter, these ratios give an indication of how investors perceive the company and they reflect the past performance and future prospects of the company. In stock market, many individual investors will choose and investigate the object by these ratios:

The P/E ratio (price earnings ratio) is also known as "stock return ratio" or "market profit ratio". Price earnings ratio is one of the most commonly used indices for evaluating the reasonableness of stock prices, it’s equal to stock price divided by the earning profit. It is generally believed that if a company's stock has a high price-to-earnings ratio, the price of the stock is frothy and the value is overvalued. When a company is growing fast and its future performance growth is very bullish, the P/E ratio will be higher .we can compare companies in the same industry when comparing the value of the different stocks, because the company's earnings per share are closer and more effective. The formula of P/E ratio is:

$$\text{Price earning ratio} = \frac{Stock\ price}{Earning\ per\ share}. \tag{2.1}$$

Dividend payout ratio, also known as dividend distribution rate or cash flow measurement formula, is the percentage of dividends to shareholders. Contrary to the retention ratio, the dividend rate indicator reflects the total net income per share of ordinary shareholders, in terms of individual common stock investors, this indicator reflects the current benefits more directly than net income per share. The formula of payout ratio is:

$$\text{Payout ratio} = \frac{Dividend\ per\ share}{Earning\ per\ share}. \tag{2.2}$$

2.5 Calculation of Stock Returns and Volatility

This chapter will introduce the calculation of stock returns and volatility which will be used in evaluation of stock performance.

The formula of HPR (Holding Period Return) will be used to evaluate stock return. Holding Period Return is measured by change of value during the period and it is used to show the return of holding a equity in a time period. The formula of HPR is :

$$r_t = \frac{P_1 - P_0}{P_o}, \tag{2.3}$$

P_1 means first period, P_0 means the beginning period.

The standard deviation will be used to show the stock price volatility, it is calculated by the sum of square of difference between each element and the average, it can show the float of a set of data, the standard deviation of a set of stock price can reflect the stock volatility. The formula can be :

$$\mathrm{S} = \sqrt{\frac{1}{N-1}\sum_{i=1}^{N}(X_i - \bar{X})^2}, \tag{2.4}$$

there $\bar{X}$ is the average mean, X_i is the every single element, N is the number of elements, S means the standard deviation.

Moreover, two average calculation formulas will be used to evaluate the mean stock return, which are Arithmetic Mean Return and Geometric Mean Return. The formula of them can be :

$$\mathrm{AM} = \frac{(R_1 + R_2 + \cdots + R_n)}{n}, \tag{2.5}$$

$$\mathrm{GM} = \sqrt[N]{R_1 \times R_2 \times \cdots \times R_n}, \tag{2.6}$$

there R_n is the nth return, N is the number of returns.

Internal Rate of Return (IRR) is the discount rate when the present value of total amount of capital inflow and capital outflow is equal and the net present value equals zero. It is the rate of return that an investment aspires to achieve. In general, the project is feasible when the internal rate of return is greater than or equal to the benchmark rate of return. At present, stocks, funds, gold, real estate, futures and other investment methods have been familiar with many financial managers. For them, the internal rate of return (IRR) indicator is an indispensable tool. The formula of IRR is :

$$INV_0 = \sum_{t=1}^{T} \frac{FCF_t}{(1+IRR)^T}, \tag{2.7}$$

there FCF_t is the future cash flow, T is the time period, INV_0 means the net present value is zero. It means the present value of total amount of capital inflow and capital outflow is equal and the net present value equals zero.

3 Overview of Stock Market in China

China is regarded as the second largest economic system in the world, for its large population and rapid economic development. Under the overview economic environment, there are also some chances and challenges in China.

The situation of economic development and stock market in China will be introduced in this chapter.

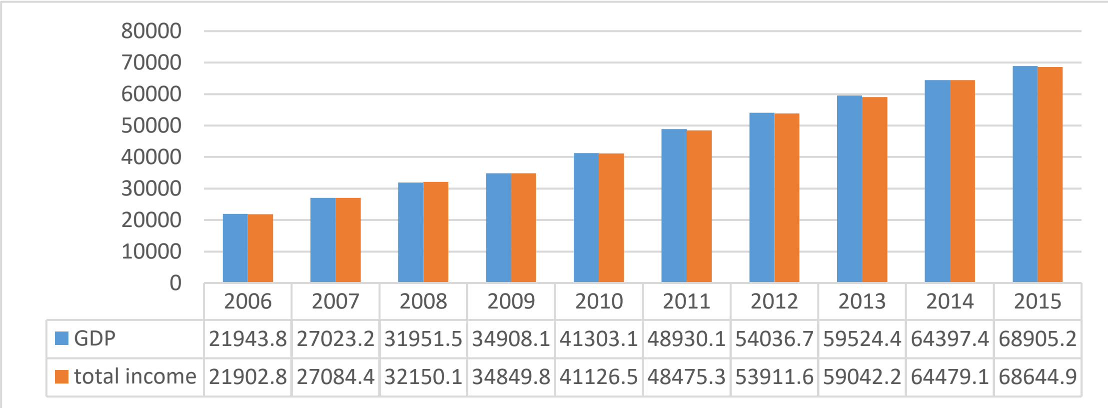
3.1 The Economic Development in China

At the beginning of the 13th five-year plan policy, the economic development in China is in situation of strategic development period, which also faces risks and conflicts in the meanwhile.

China is regarded as one of the largest economic production country, for its large population and broad area. The consumption and production level of Chinese is ranked ahead in the world. But in the process of high-speed development, China change the way into a more slowly and gentle style after realizing the crisis of pollution and resources wasting.

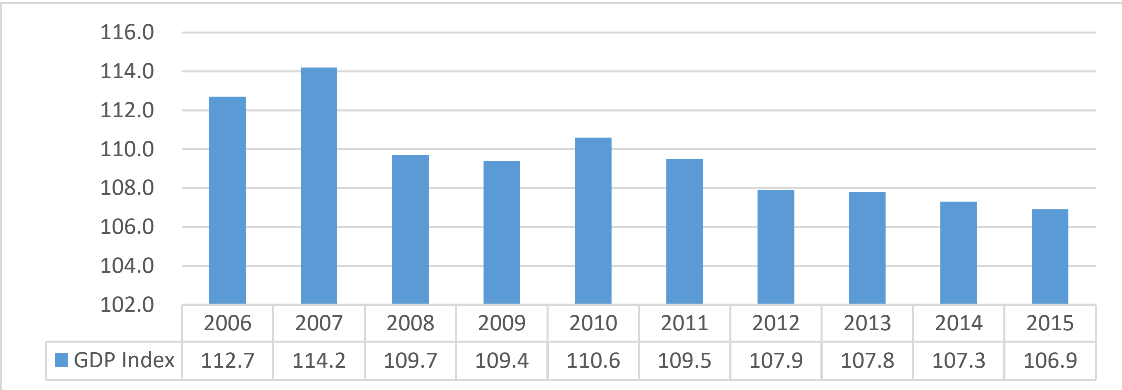
Figure 3.1 shows the GDP and total income in China is growing steadily during recent ten years. As of 2015, China total GDP had achieved 68905.2 billion RMB. But Figure 3.2 and Figure 3.3 reflects that in the meanwhile the index of GDP and total income is decreased gradually, for the economic is moving to a steady phase. After the highest GDP index of 114.2 in 2007, the growth of GDP decreased year by year. For the GNI, after the highest GNI index of 114.7 in 2007, it constantly floating during 2008 to 2015. So the income level and income growth of residents are both gentle. It shows that China government decides to change the way of rapid development into energy saving.

Figure 3.1 2006-2015 China GDP and Total Income (Billion RMB)



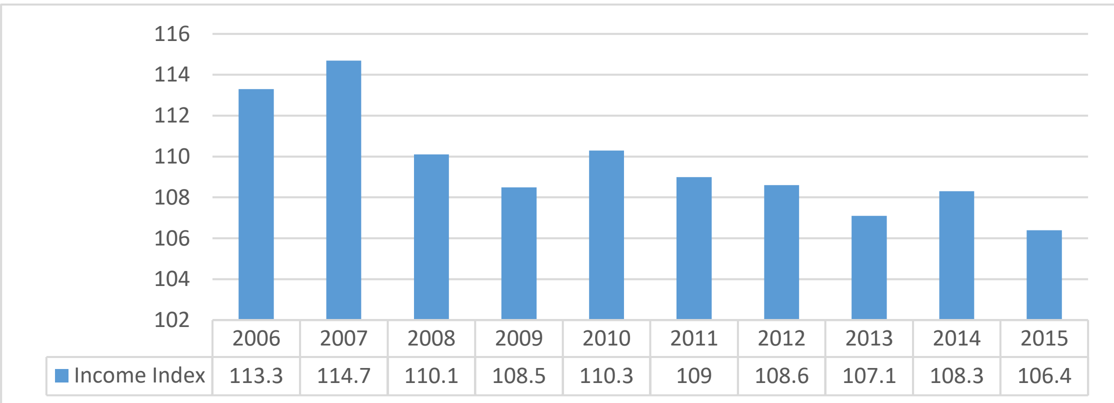
Source: National Bureau of Statistics of China (2017); Author

Figure 3.2 2006-2015 China GDP Index (Last Year=100)



Source: National Bureau of Statistics of China (2017); Author

Figure 3.3 2006-2015 China GNI Index (Last Year=100)



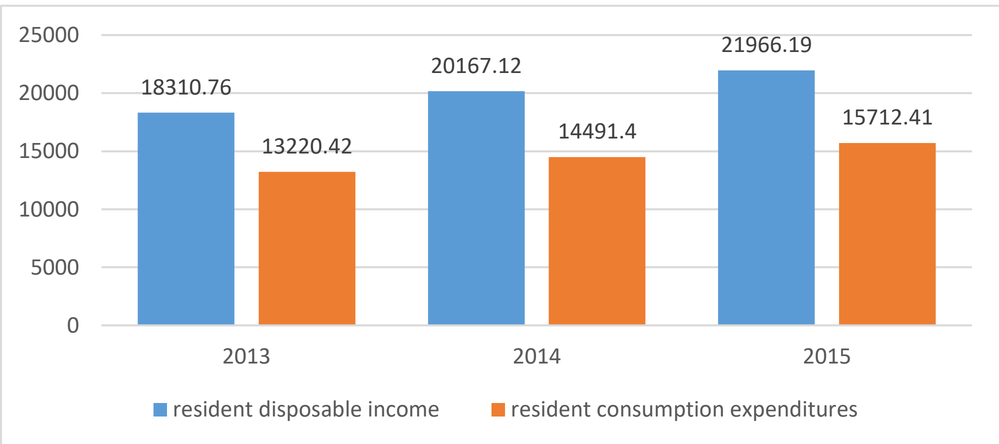
Source: National Bureau of Statistics of China (2017); Author

According to the economic development situation in worldwide, the global economic recovered slowly and the construction of the international finance changes quickly, that leads to some risks to the external environment in China. According to the internal environment of economic development, there are also some challenges following:

a) The real estate market has not fully recovered. For the heavy losses on the real estate market in 2014 that the government had carried house property limited policy, the housing estates development enterprises can just purchase less areas of land for expanding the housing. According to the area, the real estate market in first-tier cities (e.g. Beijing, Shanghai, Shenzhen) are developing faster than the second-tier cities(e.g. Wuhan, Xian). According to the construction of purchasing houses, more people buy the houses for improving the living level instead of investment.

b) The income growth is slowing down. From the National Bureau of statistics of China in Figure 3.4, the disposable income of Chinese residents was 21966.19 yuan in 2015 which increased 8.9% more than last year in nominal, if remove the influence of price factors, the real increase is lower than the increase of GDP. It means the willing of investment was weaken.

Figure 3.4 2013-2015 Chinese Resident Income and Consumption



Source: National Bureau of Statistics of China (2017) ; Author

3.2 The Stock Market Situation in China

The stock market situation will be introduced in this chapter by combination with the economic and policy trend. China stock market process can be introduced divided into history and current situation during the twenty-five years.

3.2.1 History of Stock Market

The development process of Chinese stock market can be divided into three stages according to the point of view by Tianyong Guo(2010). The three stages are: the germination and initial exploration stage of the stock market in China (1978-1991), formation and initial development of national stock market stage (1992-1999) and the development of regulation of the stock market (since 2000). During the time, Chinese stock market developed from the individual ensuring to government public offering, the stock trading from dark to bright, the government regulation become more an more strict.

During the time, the Shanghai and Shenzhen Stock Exchange company was established formally, the People's Bank transfer funds set up 33 securities companies, the “securities law "promulgated and implemented in July 1 ,1999. The National People's Congress (NPC) amend the " company law "and" Securities Law " in 2005.

All those events show that Chinese stock market is developed rapidly , but in the meanwhile, because of the rapid development, it lack of the historical precipitation. It is difficult to control the standardized management and operation in the stock market between this short span of 20 years, especially in the problems of the credibility of listed companies and the number of Chinese listed companies increased dramatically which also increase the risk of China stock market.

3.2.2 Current Situation of Stock Market

In recent years, the state makes its best on the regulation of the stock market, however, the performance of the stock market is still unsatisfactory. From the huge crisis of stock market in2008, the total stock market price and stock volume of transaction was decreased rapidly. China stock market experienced a slowly recovery phase during 2008 to 2013.

Table 3.1 The stock volume of China Stock Market

Year	Listed Company Number	Total Issuing Capital Stock (Billion)	Total Stock Market Price(Billion)	Stock Volume of Transaction (Billion)
2006	1434	4302.41	8940.39	9046.88
2007	1550	3679.51	32714.10	46055.62
2008	1625	3382.20	12136.64	26711.26
2009	1718	3183.36	24393.91	53598.70
2010	2063	2974.51	26542.30	54563.40
2011	2342	2698.45	21475.80	42164.50
2012	2494	2060.63	23035.76	31466.74
2013	2489	1890.01	23907.70	46872.90
2014	2613	1700.05	37254.70	74238.52
2015	2827	1268.40	53146.27	255054.13

Source: National Bureau of Statistics of China (2017) ; Author

The total stock market price in 2007 is 32714.10 billion RMB showed in Table 3.1 which is higher than 23907.07 billion RMB in 2013.But in the meanwhile the amount of listed company and issuing capital stock is increasing during 2006 to 2015, which lead to more risky in the stock market. After more than 20 years of development of the stock market, the number of listed companies in China is more than 2800. But in 2008, the financial crisis hit the stock market in the whole world including China and the stock market hasn't been recovered totally . Because of the impact of the world-wild financial crisis and the European debt crisis in the external environment and the downturn of domestic demand in the internal environment, the speed of economic development of our country has declined . For the stock market, China is still in the initial stage , it can hardly bear the pressure of the financial crisis and the debt crisis. The downturn of the stock market worsen the investment environment, the investors downhearted and the state try to stimulate the market by policy.

3.3 The Specific Characteristics of Chinese Stock

In the theory, stock price should be influenced by the relationship between the supply and the demand. Chengxin Zhang(2008) claims that the value, price and the relationship between supply and demand of the stock should be subject to the law of value. But the Chinese stock market is a special market which is different from other countries with a developed capital markets.

Based on the chapter 3.1 and 3.2, we can summarize some characteristics of Chinese stock:

a) The stock price does not correspond to economic situation. From the data between 2006 to 2015 in figure 3.2, Chinese GDP is growing constantly, the macro-economy is recovering strongly. But the situation of stock market is not prosperous as economics.

b) The state policy makes a great impact on stock market. Yibo (2013) has made a research which shows that the abnormal fluctuation of stock index echoes the introduction of policy. He estimate the result that the policy accounts 52% of the factors affecting the stock. It shows that Chinese stock market is a typical policy market.

c) The investors prefer speculation rather than investment in stock market. Most of the individual investors get the profit from stock by buying and selling stock instead of gaining the dividends. They want to get the higher return and bear the higher risk in the meanwhile.

d) The fluctuations of stock price is large and frequent. In 8^{th}, August, 2018, the Shenzhen Composite Index slumped 389 points. From 2007 to 2011, The Shanghai Composite Index achieved highest 6124.04 points in 16^{th} , October, 2007, and it fell to 1664.93 points in 28^{th}, October, 2008. The stock price level changed violently during the one year. It was rarely even in the worldwide.

The special economic and policy situation decides the unique Chinese stock characteristics. And it also lead to some defects in stock market.

3.4 The Defect of China Stock Market

This chapter will introduce many defects in China stock market because of the lack of regulatory, the opacity of information, the incomplete structure, the speculation in market and the split share structure. Those defects lead to a risky stock market in China and also lead to a highly yield in the stock.

3.4.1 Lack of Regulation

The current China still have a lot of regulatory gaps in the supervision of financial companies, the right protection of investors, shadow banking, financial business innovation and Internet financial. It is mainly showed at regulation competition, coordination difficulties, information segmentation and supervise arbitrage (Fang Yang, 2009).

The types of institutions based on Regulation makes the regulatory competition become a endogenous regulatory system problem. This is because in China's current administrative system, the regulatory authorities are endowed with dual responsibilities of supervision industry executives and industry, these two functions are like the monitor and trainer in the sports, their responsibilities and goals are conflict with each other that can’t be integrated. Under this system, the administrative power and the right supervision department depends largely on the regulated industry size and growth rate.

The regulatory authorities have a conflict between promoting the rapid development of industry and strengthen prudential supervision (Chaoquan Lin, 2010).

The separate supervision departments are different from the regulatory philosophy, aim and running model that makes difficulties to coordination . In 2013 the State Council established the inter ministerial joint meeting of financial supervision and coordination, but the joint conference system does not change the financial regulatory system, not impair the relevant departments the division of responsibilities, not replace the State Council decisions on major issues according to the program submitted to the State Council , so we cannot change the coordination problem from the system.

For example, the financial holding company has taken the main regulatory system that causes the regulatory gaps and coordination difficulties coexist. The innovation of P2P (point to point) lending platform is regulated by the local finance office that lead to regulatory gaps and regulatory arbitrage. In addition, the shadow banking system regulatory gaps obscures the real situation of the whole banking system of non-performing rate, which may mislead us of systemic risk assessment. The birth of the Internet financial innovation lead to new formats and innovative products which are often in the fuzzy areas of supervision in our current separate supervision system (Fnag Yang, 2009).

3.4.2 The Information Opacity

The listed company is the precondition of survival and development of stock market. If regard the listed company as the flesh of fish, the stock market is the fish ball that no great listed company no great stock market. With the rapid development of China economic, the number of listed company is increasing quickly as well that lead a great impact on stock market. So it’s important to pay attention on the financial accounting information of listed company, which is especially difficult caused by the low level of financial regulation and the opacity of company information. Many companies have a low credit which show the fake or imperfect information to get the benefit from the lack of regulation.

Although every listed company has its own shareholder's meeting, board of supervisors and board of directors, but the legal person is often a few people or only one person, those few people control the most share of the listed company which have a strong control on the company equity. For this, most stock investors have ever touched the main business of the company which cause to the information opacity.

In the meanwhile, the stock regulation department has not built an effective regulatory to the financial information of the listed company. In order to keep the continued and healthy development of China stock market, it is necessary to increase the transparency of listed company's financial information to publish the information in the public society by a real, timely and effective way.

3.4.3 The Incomplete Stock Market Structure

Compared with Europe and United States, we can find the defect of China stock market structure :

a) China stock market structure level has a lot of problem .At present, China has only two large board markets of Shanghai and Shenzhen that can't meet the demand of China stock market.
b) China listed company has an unbalanced and excursive stock equity structure which including circulating shares and non-negotiable shares .The main problem is different rights and different benefits of same stock shares.
c) The structure of investors is unbalanced that private investors have a large proportion and the investment institutions hold a small proportion in the market. The personal investors are blind and get the little benefit during the process of investment caused by the fault economic trend they get. The institution investors

get the most information and control the market to take the insider trading which lead to high return. It has a great risk on the stock market.

3.4.4 The Political Stock Market

Zhiguo Han (2010), believes that “the Chinese story is actually an administrative market”. The new published policy will make a huge influence on stock market guide. So it’s necessity to divide out the political color in the stock market to stimulate and complete the govern of the companies .

Shuqing Guo(2013) thinks that we should strength the marketization and weaken the administration to carry on the way of Chinese feature road.

3.4.5 The Split Share Structure

The split share structure refers to the shares of listed companies in the A-share market, which are divided into tradable shares and non-tradable shares. The split share structure can’t meet the requirements of the reform-and-opening-up policy and the stable development of the capital market. And it must be reformed through the change of the split share structure.

The split share structure is caused by many historical reasons. It is a special problem from the end of 80s to the beginning of 90s which in the process of transition from planned economy system to market economy system in China. In order to raise funds in the stock market and not lose the controlling rights of the state-owned economy, China has adopted the way of issuing stock incrementally to set up the modern enterprise system . It means on the basis of the original stock of state-owned enterprise assets, issuing the shares at a premium price while the original stocks will become non-tradable shares . The non-tradable shares can’t circulate on a stock exchange. This system is fixed in the practice of issuing and listing new shares , which is formed China stock market unique pattern of coexistence of tradable shares and the non-tradable shares (Haifeng Du , 2011).

The reform of the equity distribution system will help to lay a good foundation for the effective use of capital market . From the perspective of the company itself , it can also promote the development of the company that the interests of the tradable shareholders are protected. If we can eliminate the split share structure which is the biggest uncertain factor of the stock market, it will be beneficial to the long-term development of the stock market.

3.5 The Stock Return in China

The official version is: A-share, established from 1988. Like most of the world's stock markets, the benchmark for a-shares is 100 points.

In 2000, the stock market started a rumor that “ the long-term return of stock market is 10% to 12% ”. The SFC has instilled in us : "In the long run, investing in the stock market will yield very high returns", "In the long run, investing in the stock market will yield much higher returns than bank deposits" , "In the long run, investment in the stock market can be 10 times or 20 times repaid " , "In the long run, investing in the stock market is the only right choice for you."

But the double is, why most of investors lose heavily in the stock market. The vast majority of people who have been in the stock of stocks have not enjoyed the legendary 12% return. What's more, there is a lot of loss. "Seven loses, two counterpoises, one win" is the real portrayal of A-share market.

If according to the rate of stock return of 12%, the U.S. DOWJONES should be around 25000 in 2009, but the fact is, the U.S. Dow is still 24866.89 till today which is lower than 25000 (The U.S. Dow, 2018).

Following, the stock returns will be evaluated in selected companies in China.

4 Evaluation of Stock Returns of Selected Companies in China

From 2006 to 2015, China stock market experienced scat and the rainbow after the storm. During this time, local companies had tried to find varies solution to fit the stock situation.

In this chapter, two major listed companied are selected, China Petroleum and Chemical Corporation and Suning Holdings Group. This two companies are leading sheep respectively in state-owned enterprises and private enterprises. China Petroleum and Chemical Corporation is at the monopoly market while the Suning Holding Group is at the competitive market.

4.1 China Petroleum and Chemical Corporation

This chapter will introduce the basic information of China Petroleum and Chemical Corporation and calculate the payout ratio and price earnings ratio by its financial statements data. And then we focus on the stock return of China Petroleum and Chemical Corporation during 2006 to 2015.

4.1.1 Company Profile of Sinopec

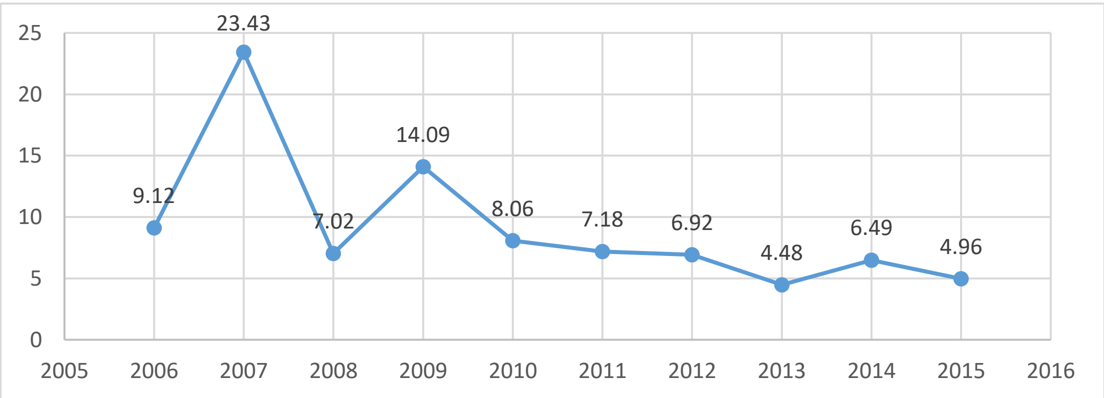
China Petroleum and Chemical Corporation ((hereinafter referred to as "Sinopec”) is a domestic and foreign listed joint-stock enterprise .Sinopec combined of upper and lower middle and downstream areas who has prominent industry of oil and petrochemical . Sinopec's largest shareholder is a special large-scale petroleum and petrochemical Enterprise Group which is state-authorized investment agency and state holding company.

The company's main business scope includes: industrial investment and investment management; oil and gas exploration, mining, storage and transportation (including pipeline transport), sales and comprehensive utilization, coal production, sale, storage, transportation, petroleum refining, oil storage, transportation, wholesale and retail, petrochemical industry, natural gas chemical industry, coal chemical industry and other chemical products production , sales, storage, transportation, new energy, geothermal and other energy products production, sales, storage, transportation, petroleum and petrochemical engineering exploration, design, consultation, construction, installation, maintenance and repair of petrochemical equipment, electrical and mechanical equipment development, manufacturing and sales, electricity, steam, water and industrial gas production and sales, alternative energy products research, development, application, advisory services, Self-and Agent related goods and technology import and export, foreign project contracting, tendering procurement, labor export, international warehousing and logistics business, etc.

4.1.2 Overall Financial Performance of Sinopec

Sinopec issued 16.78 billion shares (H shares 00386) in Hong Kong, New York and London in October 2000 18th . In July 16, 2001, Sinopec issued 2.8 billion A shares (600028) on the Shanghai Stock Exchange . At the end of 2016, Sinopec had 121.07 billion stock shares, China Petrochemical Corporation Holdings accounted for 70.86%, foreign shares accounted for 20.96%, social public shares accounted for 8.18% (Sinopec financial statements).

Figure 4.1 2006-2015 Sinopec Stock Price Per Share Every End of the Year(RMB)



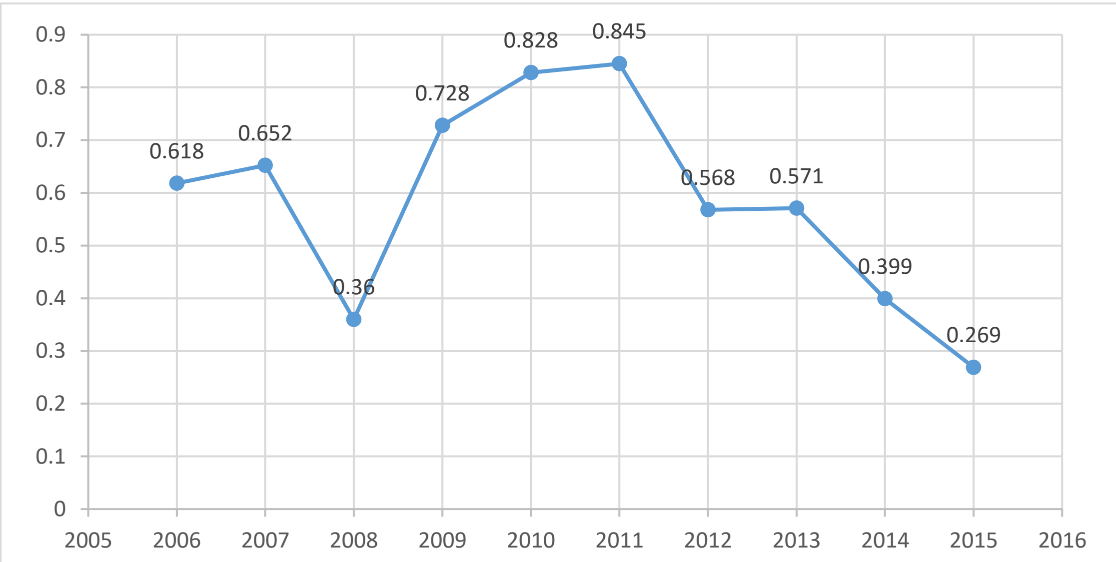
Source: The data of Shanghai stock exchange; Author

The figure 4.1 shows the stock closing price every end of the year of China Petroleum and Chemical Corporation. During 2005 to 2007 , China stock market was exactly at a bull phase that many Chinese individual investors were confident with investing stock. April 9, 2007, the State Council formally approved the "Sichuan Gas East" project, and it was included in the national "Eleven-Five" major projects. February 20, 2008, Sinopec issued 30 billion separate trading convertible bonds. And in the meanwhile many media agency publicized the stock of Sinopec which was a advertising trick by the China Petroleum in fact.

The lack of regulation in stock market was obviously appeared during this time. Many individual investor had no professional abilities and skillful knowledges that they bought the stock of Sinopec because of congregation sense. That was the decisive reason which led to the high stock price of China Petroleum and Chemical Corporation.

In 2008, China stock market was attacked by finance crisis, so the price of the China Petroleum and Chemical Corporation decreased immediately that institution undersell the stock and individual investors paid for the bill.

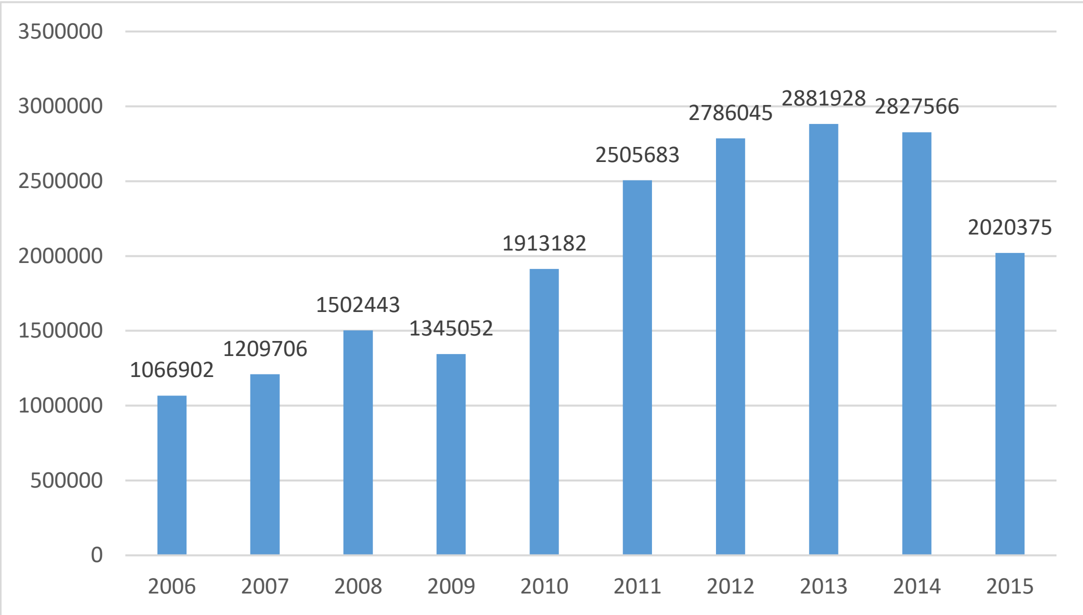
Figure 4.2 2006-2015 The Basic Net Profit Per Share of Sinopec (RMB)



Source: 2006-2015 Sinopec financial statements; Author

The figure 4.2 shows the net profit per share of Sinopec during 2006-2015. It means that the profit dropped suddenly in 2008 because of finance crisis and then it get recovered from 2009 to 2011. After 2011, the net profit per share decreases gradually which is in line with the low stock price.

Figure 4.3 2006-2015 The Total Turnover of Sinopec (Millions RMB)



Source: 2006-2015 Sinopec financial statements; Author

Combination with the total turnover of Sinopec (Figure 4.3), the net profit per share has different trends with the turnover. The huge turnover of Sinopec after 2011 brings the little profit relatively. Modigliani and Miller (1958, 1961) conclude that , “In a perfect market, the value of a firm is not affected by how it is divided over capital categories and the value of a share is unaffected by whether its income is in the form of dividends or capital gains”. It means that individual investors can hardly find the relationship between the companies benefits and dividends return, so it’s hard to decide the investment value of a company by checking the financial statements. Which shows that the worth of investing should be decided by comprehensive macroscopic and microscopic aspects .

4.1.3 Calculation of Stock Market Indicators

In this section, we will calculate the stock indicators in Sinopec to measure the return of the investors. There will use two kinds of indicators: P/E ratio (2.1) and payout ratio (2.2).

Table 4.1 2006-2015 The P/E ratio and Payout ratio of Sinopec

Year	Dividends Per Year	Net Profit Per Share	Stock Price	P/E Ratio	Payout Ratio
2006	0.130	0.618	9.12	14.757	0.210
2007	0.160	0.652	23.43	35.935	0.245
2008	0.145	0.360	7.02	19.500	0.403
2009	0.160	0.728	14.09	19.354	0.220
2010	0.190	0.828	8.06	9.734	0.230
2011	0.230	0.845	7.18	8.497	0.272
2012	0.300	0.568	6.92	12.183	0.528
2013	0.290	0.571	4.48	7.845	0.507
2014	0.240	0.399	6.49	16.265	0.602
2015	0.200	0.269	4.96	18.438	0.743

Source：2006-2015 Sinopec financial statements; Author

Table 4.1 shows the level of stock price in Sinopec. The highest P/E ratio is 35.935 in 2007, and the lowest is 7.845 in 2013. We can find the big difference between two points. And the ups and downs of price earnings ratio between 10 years shows the unstable stock price level of Sinopec, which brings a lot of possibility of speculation in stock. The float stock price level makes a enough profitable space by buying and selling the stock.

Under the premise of the unstable stock price level, Sinopec brings most possibilities to the speculative brave investors. In the meanwhile, the conservative investors choose another safer way to gaining the profit by earning the dividends .

Table 4.1 also shows the payout ratio of Sinopec. During 2006 to 2015, the payout ratio of Sinopec stock is gradually increased, it means the more profitable rights of stockholders. But combination with the stock price which is the input of investors, the very low dividends per year brings the low return. We can see the highest dividends return was occurred in 2015, which was about 4% (stock price was 4.96 and the dividend of the year was 0.2). The central bank interest rate of one-year deposit was 2.75% and the three- year state bonds rate was 4.92% in the same year from the 2015 official state data.

During the data of Sinopec between nearly 10 years, we can see that the dividends profit is match with the investment market return. It means that dividend is a kind of steady and low-profit investment way. But in the reality, most of investors want to gain the profit between buying and selling the stock instead of earning the dividends by holding the stock for long-term. But it's obviously that the risk of arbitrage is more highly than the latter, which is the reason of its high return.

As for the theory of "dividends are irrelevant in a perfect capital market". The mechanism to bring about irrelevant is again arbitrage. In a perfect capital market, investors can undo management's dividends decisions free of charge, so any price effects of dividends would give arbitrage opportunities.(Miller, Modigliani, 1961)

So how those people can gain the profit from it by arbitrage in stock market? We will estimate the stock returns of Sinopec during 2006 to 2015.

4.1.4 Evaluation of Stock Return of Sinopec

At first, we will calculate the ten-year stock return of Sinopec during 2006 to 2015. There are some assumptions to calculate it: The total investment of an investor at the beginning of the whole period is 10000 in 2006. It means because of the given stock price of 9.12, the investor buys 1096.49 shares. And then the investor holds the 1096.49 shares during the whole period at the end of 2015. Considering the dividends received every year, the total value of dividends received is calculated as a dividend per one share multiply the number of shares. At the end of 2015, the investor sells his 1096.49 shares by the price of 4.96.

Table 4.2 Cash flow of Sinopec During 2006 to 2015

Year	Stock price	Dividends	Cash flow
2006	9.12		-10000.00

2007	23.43	0.16	175.44
2008	7.02	0.145	158.99
2009	14.09	0.16	175.44
2010	8.06	0.19	208.33
2011	7.18	0.23	252.19
2012	6.92	0.3	328.95
2013	4.48	0.29	317.98
2014	6.49	0.24	263.16
2015	4.96	0.2	5657.89
			IRR=-3.439%

Source: 2006-2015 Sinopec official financial statements; Author

Table 4.2 shows the cash flow during ten years. Using the formula of IRR (2.7) based on the data of cash flow, the result of stock return is -3.439%. Removing the influence of the fees and transaction costs, the suppose of one-investor stock market is also far from reality. And the period also varies from one-year to ten-year. But the data can also reflect the average return of most Sinopec investors. It means most of investors lose in Sinopec stock.

Table 4.3 The Stock Holding Period Return of Sinopec (%)

Year	Stock Price	HPR
2006	9.12	
2007	23.43	156.91%
2008	7.02	-70.04%
2009	14.09	100.71%
2010	8.06	-42.80%
2011	7.18	-10.92%
2012	6.92	-3.62%
2013	4.48	-35.26%
2014	6.49	44.87%
2015	4.96	-23.57%

Source: 2006-2015 Sinopec official financial statements; Author

Table 4.3 shows the one-year holding period stock return (2.3) of Sinopec from 2006 to 2015 with not considering the dividends. The highest stock return is 156.91% during 2006 to 2007, and the worst return is the next year of the result of -70.04% in 2008. The huge ups and downs of stock price lead to a more risky investment.

Based on the formula of standard deviation (2.4), the result of stock price standard deviation of Sinopec during 2006 to 2015 is 5.67.

Further, the result of arithmetic mean (2.5) of HPR is 12.92%, while the geometric mean of HPR is -6.543%. The geometric mean (2.6) shows the annual growth rate of investment, which means the 10000 values of shares in 2006 will be the value of 5657.89 after nine years in 2015. Which is match with the Table 4.2.

Thus, we compare the result of IRR (-3.439%) and GM of HPR (-6.543%), we can see that the income from dividends compensates the decrease in the value of a stock and rate of return is slightly higher.

4.2 Suning Holdings Group

This chapter will introduce the basic information of Suning Holdings Group and calculate the payout ratio and price earnings ratio by its financial statements data. And then we focus on the stock return of Suning Holding Group during 2006 to 2015. Moreover, the stock returns will be compared with companies in same industry.

4.2.1 Company Profile of Suning Holding Group

Suning was founded in 1990.Suning has 180,000 employees now and has two listed companies in China and Japan, respectively, Suningyun (002024.SZ) and Tesco (ラオックス "8202"). After 26 years of development, Suning is now China's leading commercial retail enterprises, which ranked among the top three private enterprises in China.

Adhering to the enterprise mission of "leading the industrial ecology, creating a quality life", Suning industry continues to expand and form the pattern of the “Suning Online”, “Suning Logistics”, “Suning Finance”, “Suning Technology”, “Suning property”, “Suning Culture”, “Suning Sports” and “Suning investment” in eight major industries.

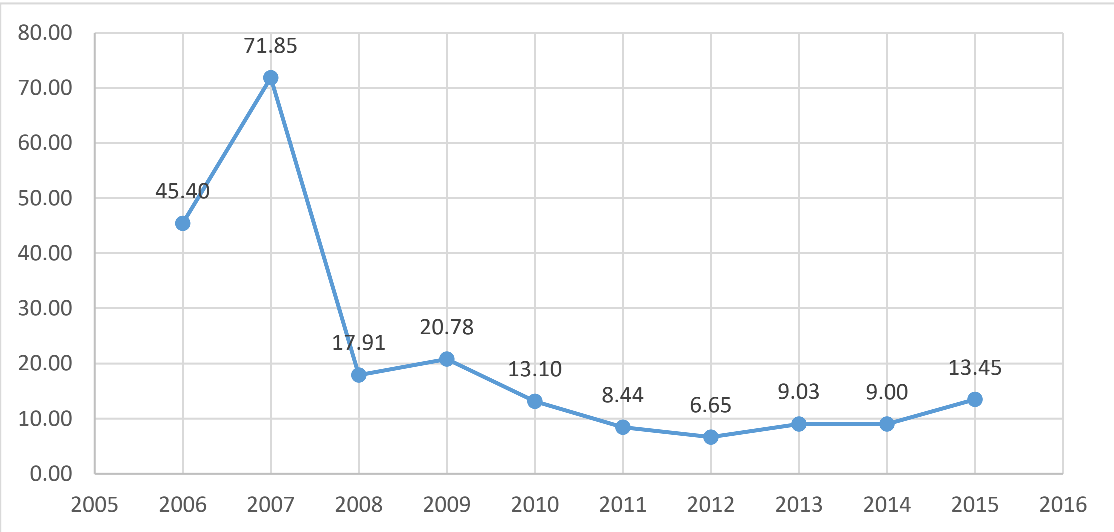
In July 21, 2004, Suning became the first share of IPO appliance chain in Shenzhen Stock Exchange officially. Suning got online officially in 2010， different between the traditional linear store growth model, Suning can quickly formed a nationwide sales scale which showing explosive growth. In the meanwhile Suning shared existing resources, and quickly established their own profit model relying on the National Physical Logistics.

In June 2016, the World brand Laboratory in Beijing released 2016 "China's 500 Most valuable brand" list, Suning ranked 13th in the brand standings by the brand value of 158.268 billion Yuan , which stood the first place in the retail industry.

In August 2017, the National Federation of China issued 2017 Chinese top 500 private enterprises list, Suning holding group ranked second by the business income of 412.951 billion yuan.

4.2.2 Evaluation of Stock Returns of Suning Group

Figure 4.4 2006-2015 Suning Group Stock Price Per Share Every End of the Year(RMB)



Source: The data of Shenzhen stock exchange; Author

Figure 4.4 shows the abnormal stock price of 71.85 which is historical highest in 2007. And this situation is similar in Sinopec. During 2008 to 2015, the stock price tends to be gentle.

Based on the stock price during ten years, we can calculate the standard deviation (2.4) of stock price of Suning Holding Group is 20.97, which is much higher than the 5.67 of Sinopec. It means the stock volatility of Suning Group is higher than Sinopec. As the different company types mentioned before, Sinopec is the monopoly company while the Suning Holding Group is private company in competitive market, it may be the reason of high stock volatility of Suning Group.

Then the ten-year stock return of Suning Holding Group will be calculated by the formula IRR. As the same method of evaluation on Sinopec mentioned before, there are some assumptions to calculate it: The total investment of an investor at the beginning of the whole period is 10000 in 2006. It means because of the given stock price of 45.4, the investor buys 220.26 shares. And then the investor holds the 220.26 shares during the whole period until 2015. Considering the dividends received every year, the total value of dividends received is calculated as a dividend per one share multiply the number of shares. Until 2015, the investor sells his shares by the price of 13.45 and gain the value of 2962.56.

Table 4.4 The cash flow of the investor of Suning Holding Group

Year	Stock price	Dividends	Cash flow	HPR
2006	45.40		-10000.00	
2007	71.85	0.2	44.05	58.26%
2008	17.91	0.13	28.63	-75.07%
2009	20.78	0.05	11.01	16.02%
2010	13.1	0.1	22.03	-36.96%
2011	8.44	0.15	33.04	-35.57%
2012	6.65	0.05	11.01	-21.21%
2013	9.03	0	0.00	35.79%
2014	9	0.05	11.01	-0.33%
2015	13.45	0.06	2962.56	49.44%
			IRR=-12.386%	

Source：Official data of Suning financial statements; Author

Table 4.4 shows he result of IRR (2.7) is calculated of -12.386%, which means the ten-year holding stock return of Suning Group is negative. It is the trend of long-term investors of Suning Group that their dividends can not cover the decrease of stock value.

HPR (2.3) shows the one-year holding period stock return of Suning Group from 2006 to 2015 with not considering the dividends. The highest stock return is 58.26% during 2006 to 2007, and the worst return is the next year of the result of -75.07% in 2008. Which is match the situation of Sinopec. The huge ups and downs of stock price lead to a more risky investment. The stock return results calculated by arithmetic mean (2.5) and geometric mean (2.6) are respectively -1.070% and -12.773% which are both negative.

Then we will analysis the stock performance of Suning Holding Group in the industry. Different with the Sinopec which is a monopoly company, Suning Holding Group is in a competitive market, and the average P/E ratio in the industry is a essential measure of the performance of Suning Group stock.

To compare the stock performance of Suning Group in the E-commerce industry, there are some other companies selected in the same industry, and their P/E ratio and total net profit are calculated from their financial statement in the end of 2017.

Table 4.5 The P/E ratio of selected E-commerce companies in 2017 (RMB)

Company	Stock Price	Earnings per share	P/E Ratio
Suning	12.29	0.45	27.31
Gome	0.94	0.12	7.83
VIP	10.55	0.47	22.45
JD	39.22	-1.36	-28.84

Source: Financial statement data from selected companies official website; Author

Table 4.5 shows the closing stock price of four E-commerce companies at the end of 2017. The highest stock price is 39.22 of JD, while the lowest earnings per share is -1.36 of the same company. It means JD can hardly cover the cost by its profits, but it also regarded as a better future company.

The result of Arithmetic mean of P/E ratio can be calculated of 7.19, while the Geometric mean of P/E ratio is 4.58. And the median of P/E ratio of four companies is 15.14 by the average of VIP and Gome. It can reflect the industry P/E ratio level in 2017 from the three different calculation method. Based on it, we can conclude that the P/E ratio of Suning Group is leading in the industry which is 27.31. It means the profitability of stock of Suning Group is more stronger than the average level in the E-commerce industry.

4.3 Summary of Results

Based on the chapter 4.1 and 4.2 we get the following results:

For Sinopec, the standard deviation of stock price (stock volatility) is 5.67. The ten-year stock return during 2006 to 2015 is -3.439%, the one-year Arithmetic mean stock return is 12.92% while the one-year Geometric mean stock return is -6.543%.

For Suning Holding Group, the standard deviation of stock price (stock volatility) is 20.97. The ten-year stock return during 2006 to 2015 is -12.386%, the one-year Arithmetic mean stock return is -1.070% while the one-year Geometric mean stock return is -12.773%. And the stock performance of Suning Group is much more higher than average level in the industry.

We can concern it as a bad stock investment of Sinopec and Suning Holding Group and do rule out some lucky investors. In this situation, most investors will not hold their shares for a long time, instead of that they will try to buy the stock in the low price and sell them with the higher price relatively to gain the difference. It is what Chinese stock market shows. Investors take more care about the difference between the stock price ups and downs instead of long-term holding period stock return. But it is absolutely risky, and most of stock investors are failed in their speculative investment.

Moreover the result shows, we can roughly think the results of stock return in Sinopec and Suning Group are both unsatisfactory which can reflect the whole Chinese stock market situation. Because this two companies are almost biggest companies in their industry. The stock performance of whole stock market is not as prosperous as the development of economics. It match the actual situation that most of stock investors get the loss in investing stock. Based on the result, individual investors must to think about the risky of stock investment and learn more professional stock knowledges and skills to build a better understanding on stock investment.

5 Conclusion

The thesis introduces the characteristics and function of stock which help us to gain a better understanding of stock market mechanism. For individual investors, they generally attain the information of investable stock by the stock index or the company benefits which announced by professional investment institutions.

The Chinese stock market can be regarded as one of the most concerned market in the world. While the more and more smooth development of Chinese economics, the stock market seems to be ups and downs during nearly ten years. There is a saying that the stock market is the barometer of the economy, but in the A-shares, it seems that there is not too much association between it and the real economy, as if there is its own operating rules. The author thinks it is the reason of incomplete regulation and rampant speculation in Chinese stock market. Investors do not care about the company's performance, they pay more attention on the hype and the insider of the company. Most investors chase the high return of stock, so they prefer the more profitable shares and fall into the trap of low rating companies and high risk stock. And those blue chips with the stable low return are gradually trading light. The defect of stock market leads to legal loophole that many companies can release fake information and manipulate the stock market.

PetroChina(Sinopec) is claimed to be the most lucrative company in Asia, which attract huge amount of individual investors in 2011. But according to the calculation in chapter 4, the actual stock return of Sinopec is absolutely not match its advertising effectiveness. It means most of investors lose in Sinopec stock. The same result also occurred in the Suning Holding Group which has the negative stock return both in ten-year period and one-year period.

This thesis analysis the risky of investing stock in China stock market, it shows in four aspects: (1)The lack of regulation in Chinese stock market which causes moral hazard. (2) It's hard to decide the prospects of investment in a stock by a company's financial statement benefits. It means the irrelevant of dividends. (3) The herd mentality and speculative psychology of mostly amateur individual investors. (4) The actual stock return is incompatible with the economic development that the valuation results of stock return are unsatisfied.

In all, stock can hardly be regarded as a stable and secure investment way. Maybe the Chinese stock market need to build a more complete regulation mechanism and the individual investors should to know more professional knowledges and gain the ability to distinguish the false information in stock market.

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List of Abbreviations

HPR: Holding Period Return
IRR: Internal Rate of Return

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Herewith I declare that

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Zhuoran Sun 孙卓然

Zhuoran Sun

List of Annexes

Annex 1 Basic Status in China's Equity Market

Year	2016	2015	2014	2013	2012
Number of Listed Companies in China	3052	2827	2613	2489	2494
Number of Domestic Listed Foreign Stock Companies	100	101	104	106	107
Number of Listed Companies Abroad	241	229	205	185	179
Share Total Issue Share Capital (Billion shares)	48819.73	43024.14	36795.10	33822.04	31833.62
Circulating Capital (Billion shares)	41138.56	37043.37	32289.25	29997.12	24778.22
Total Market Value (Billion)	507685.00	531462.70	372546.96	239077.00	230357.62
Stock Circulation Market Value (Billion RMB)	393402.00	417880.75	315624.31	199579.54	181658.26
Stock turnover Number (Billion shares)	94690.52	171039.48	73383.09	48372.68	32860.54
Stock turnover (Billion RMB)	1273846.00	2550541.31	742385.26	468729.00	314667.41
Shanghai Composite Index (closed)	3103.6	3539.2	3234.7	2116.0	2269.1
Shenzhen Composite Index (closed)	1969.1	2308.9	1415.2	1057.7	881.2
Shanghai Average P/E Ratio (%)	18.0	18.9	16.9	11.0	12.3
Shenzhen Average P/E Ratio (%	52.2	62.4	41.9	27.8	22.0
Average Turnover Rate in Shanghai (%)	220.9	489.6	242.0	123.6	101.6
Average Turnover Rate in Shenzhen (%	539.7	826.3	472.0	389.1	297.9

Source: National Bureau of Statics of China; Author

Annex 2 Transaction Status in China's Equity Market

Year		2016	2015	2014	2013	2012
Number of listed companies		3052	2827	2613	2489	2494
Number of listed stocks	A-Share	3034	2808	2592	2468	2472
	B-Share	100	101	104	106	107
Total Issue Share Capital (Billion shares)	A-Share	48779.27	42753.16	36517.75	33538.25	31551.24
	B-Share	40.46	270.98	277.35	283.79	282.38
Circulating Capital (Billion shares)	A-Share	41098.10	36773.67	32013.11	29714.53	24497.05
	B-Share	40.46	269.70	276.14	282.59	281.17
Total Market Value (Billion)	A-Share	505773.00	529251.65	370823.17	237403.00	228775.33
	B-Share	1912.00	2211.05	1723.79	1674.00	1582.29
Stock Circulation Market Value (Billion)	A-Share	391499.00	415680.99	313910.42	197915.96	180082.94
	B-Share	1903.00	2199.76	1713.89	1663.58	1575.32
Stock Turnover (Billion)	A-Share	1272358.00	2546837.74	741378.07	466630.00	313715.14
	B-Share	1488.00	3703.57	1007.19	1439.00	868.13
Total Number of Shares Sold (Billion shares)	A-Share	94480.51	170541.00	73188.22	47916.23	32681.93
	B-Share	210.01	498.48	194.87	263.89	178.61
Highest Shanghai Composite Index		3538.7	5178.2	3239.4	2444.8	2478.4
Lowest Shanghai Composite Index		2638.3	2850.7	1974.4	1849.7	1949.5
Closing Shanghai Composite Index		3103.6	3539.2	3234.7	2116.0	2269.1
Highest Shenzhen Composite Index		2304.5	3157.0	1504.5	1106.3	1020.3
Lowest Shenzhen Composite Index		1618.1	1409.0	1004.9	815.9	725.0
Closing Shenzhen Composite Index		1969.1	2308.9	1415.2	1057.7	881.2

Source: National Bureau of Statics of China; Author